

CITY OF CLEGHORN

INDEPENDENT AUDITOR'S REPORTS

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS

JUNE 30, 2004

NEWS RELEASE

FOR RELEASE

Hunzelman, Putzier & Co., PLC today released an audit report on the City of Cleghorn, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole.

Hunzelman, Putzier & Co., PLC reported that the City of Cleghorn's receipts totaled \$135,877 for the year ended June 30, 2004. The receipts included \$34,452 in property tax, \$36,553 from charges for service, \$20,822 from operating grants, contributions, and restricted interest, \$17,459 from local option sales tax, \$22,525 from tax increment financing collections, and \$4,066 from other general receipts.

Disbursements for the year totaled \$137,737, and included \$53,203 for public works, \$26,064 for general government, and \$16,478 for debt service. Also, disbursements for business type activities totaled \$22,596.

This report contains recommendations to the City Council and their indicated responses to the recommendations.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.

CITY OF CLEGHORN
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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CITY OF CLEGHORN

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
(Before January, 2004)		
Mick Wetherell	Mayor	January, 2004
Mike Huffman	Council Member	January, 2004
Barb Kuhnes	Council Member	January, 2004
Greta Petersen	Council Member	January, 2004
Robert Byers	Council Member	January, 2006
Les Pedersen	Council Member	January, 2006
Elaine French	City Clerk/Administrator	Indefinite
Karen Egger	Treasurer	Indefinite
Wally Miller	Attorney	Indefinite
(After January, 2004)		
Mick Wetherell	Mayor	January, 2008
Robert Byers	Council Member	January, 2006
Les Pedersen	Council Member	January, 2006
Sue Brieese	Council Member	January, 2008
Mike Bunt	Council Member	January, 2008
Greta Petersen	Council Member	January, 2008
Elaine French	City Clerk/Administrator	Indefinite
Karen Egger	Treasurer	Indefinite
Wally Miller	Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.
JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD R. MOORE, C.P.A.
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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STORM LAKE, IOWA 50588
712-732-3653
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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
Cleghorn, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Cleghorn, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information for the City of Cleghorn, as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 9, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated July 28, 2005 on our consideration of City of Cleghorn's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Budgetary comparison information on pages 15 and 16 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

City of Cleghorn, Iowa, has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Cleghorn's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hengelman, Putzier & Co.

July 28, 2005

CITY OF CLEGHORN
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

Exhibit A

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets	
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental Activities						
Public safety	\$ 3,000	\$ -	\$ -	\$ (3,000)	\$ -	\$ (3,000)
Public works	53,203	10,456	20,822	(21,925)	-	(21,925)
Culture and recreation	16,396	-	-	(16,396)	-	(16,396)
General government	26,064	-	-	(26,064)	-	(26,064)
Debt service	16,478	-	-	(16,478)	-	(16,478)
Total governmental activities	<u>115,141</u>	<u>10,456</u>	<u>20,822</u>	<u>(83,863)</u>	<u>-</u>	<u>(83,863)</u>
Business type activities						
Water	16,449	16,057	-	-	(392)	(392)
Sewer	6,147	10,040	-	-	3,893	3,893
Total business type activities	<u>22,596</u>	<u>26,097</u>	<u>-</u>	<u>-</u>	<u>3,501</u>	<u>3,501</u>
Total	<u>\$ 137,737</u>	<u>\$ 36,553</u>	<u>\$ 20,822</u>	<u>(83,863)</u>	<u>3,501</u>	<u>(80,362)</u>
General Receipts:						
Property tax levied for:						
General purposes				34,452	-	34,452
Tax increment financing collections				22,525	-	22,525
Local option sales tax				17,459	-	17,459
Unrestricted interest on investments				1,100	-	1,100
Bank franchise tax				1,152	-	1,152
Miscellaneous				1,814	-	1,814
Total general receipts and transfers				<u>78,502</u>	<u>-</u>	<u>78,502</u>
Change in cash basis net assets				(5,361)	3,501	(1,860)
Cash basis net assets beginning of year				130,025	51,545	181,570
Cash basis net assets end of year				<u>\$ 124,664</u>	<u>\$ 55,046</u>	<u>\$ 179,710</u>
Cash Basis Net Assets						
Restricted:						
Streets				\$ 40,948	\$ -	\$ 40,948
Local option sales tax				74,038	-	74,038
Unrestricted				9,678	55,046	64,724
Total cash basis net assets				<u>\$ 124,664</u>	<u>\$ 55,046</u>	<u>\$ 179,710</u>

See notes to financial statements.

CITY OF CLEGHORN
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

Exhibit B

	<u>Special Revenue</u>			
	<u>General</u>	<u>Road Use</u>	<u>Local</u>	
		<u>Tax</u>	<u>Option</u>	
			<u>Sales</u>	<u>Total</u>
			<u>Tax</u>	
Receipts:				
Property tax	\$ 33,267	\$ -	\$ -	\$ 33,267
Tax increment financing collections	22,525	-	-	22,525
Other city tax	1,185	-	17,459	18,644
License and permits	85	-	-	85
Use of money and property	1,100	-	-	1,100
Intergovernmental	1,152	20,822	-	21,974
Charges for service	10,371	-	-	10,371
Miscellaneous	1,814	-	-	1,814
Total receipts	<u>71,499</u>	<u>20,822</u>	<u>17,459</u>	<u>109,780</u>
Disbursements:				
Operating:				
Public safety	3,000	-	-	3,000
Public works	31,970	21,233	-	53,203
Culture and recreation	16,396	-	-	16,396
General government	26,064	-	-	26,064
Debt service	16,478	-	-	16,478
Total disbursements	<u>93,908</u>	<u>21,233</u>	<u>-</u>	<u>115,141</u>
Net change in cash balances	(22,409)	(411)	17,459	(5,361)
Cash balances beginning of year	<u>32,087</u>	<u>41,359</u>	<u>56,579</u>	<u>130,025</u>
Cash balances end of year	<u>\$ 9,678</u>	<u>\$ 40,948</u>	<u>\$ 74,038</u>	<u>\$ 124,664</u>
Cash Basis Fund Balances				
Unreserved:				
General fund	\$ 9,678	\$ -	\$ -	\$ 9,678
Special revenue funds	-	40,948	74,038	114,986
Total cash basis fund balances	<u>\$ 9,678</u>	<u>\$ 40,948</u>	<u>\$ 74,038</u>	<u>\$ 124,664</u>

See notes to financial statements.

CITY OF CLEGHORN
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

Exhibit C

	Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Receipts:			
Charges for service	\$ 15,620	\$ 10,040	\$ 25,660
Miscellaneous	<u>437</u>	<u>-</u>	<u>437</u>
Total operating receipts	<u>16,057</u>	<u>10,040</u>	<u>26,097</u>
Operating Disbursements:			
Business type activities	<u>16,449</u>	<u>6,147</u>	<u>22,596</u>
Total operating disbursements	<u>16,449</u>	<u>6,147</u>	<u>22,596</u>
Net change in cash balances	(392)	3,893	3,501
Cash balances beginning of year	<u>11,525</u>	<u>40,020</u>	<u>51,545</u>
Cash balances end of year	<u>\$ 11,133</u>	<u>\$ 43,913</u>	<u>\$ 55,046</u>
Cash Basis Fund Balances			
Unreserved	<u>11,133</u>	<u>43,913</u>	<u>55,046</u>
Total cash basis fund balances	<u>\$ 11,133</u>	<u>\$ 43,913</u>	<u>\$ 55,046</u>

See notes to financial statements.

CITY OF CLEGHORN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Cleghorn is a political subdivision of the State of Iowa located in Cherokee County. It was first incorporated in 1890 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, general government services, and business type activities.

A. Reporting Entity

For financial reporting purposes, City of Cleghorn has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations -The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint members to Cherokee County Assessor's Conference Board, Cherokee County E911 Board, and Cherokee County Solid Waste Commission.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

CITY OF CLEGHORN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for community betterment projects financed by those funds.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Cleghorn maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

CITY OF CLEGHORN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public works and general government functions.

2. CASH AND INVESTMENTS

The City's deposits in banks at June 30, 2004 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Auditing Standards Board Statement Number 3.

3. NOTES PAYABLE

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ending June 30,	<u>General Obligation Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$11,750	\$ 4,632
2006	12,500	3,998
2007	13,250	3,310
2008	14,000	2,568
2009	14,750	1,770
2010	15,500	914
Total	<u>\$81,750</u>	<u>\$17,192</u>

CITY OF CLEGHORN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

4. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2004 was \$10,840, equal to the required contributions for the year.

5. SOLID WASTE DISPOSAL AGREEMENT

The City entered into an agreement with the Cherokee County Solid Waste Commission, in accordance with Chapter 28E of the Code of Iowa, to provide for the disposal of solid waste from within the City. For the year ended June 30, 2004, \$6,358 was paid pursuant to the agreement.

State and federal laws and regulations require the Commission to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The total costs to the Commission have been estimated at \$1,094,195 as of June 30, 2004, and the portion of the liability that has been recognized is \$915,891. The Commission has begun to accumulate resources to fund the closure costs, and at June 30, 2004 deposits of \$180,158 are held for these purposes.

Since the estimated closure and postclosure care costs are not fully funded, the Commission is required to demonstrate financial assurance of the unfunded costs. The Commission has adopted the dedicated fund mechanism. The Commission obtained a local government guaranty from Cherokee County on June 10, 1997 for the purpose of financing the postclosure costs of the landfill.

6. SERVICE AGREEMENTS

The City has an agreement with Sanitation Services for refuse collection and hauling of solid waste and recyclable materials. Payments under this agreement were \$5,456 for the year ended June 30, 2004.

7. RISK MANAGEMENT

City of Cleghorn is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF CLEGHORN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

8. ACCOUNTING CHANGE AND RESTATEMENTS

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CLEGHORN
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2004

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	<u>Net</u>	Budgeted Amounts Original and Final	Final to Net <u>Variance</u>
Receipts:					
Property tax	\$ 33,267	\$ -	\$ 33,267	\$ 31,018	\$ 2,249
Tax increment financing collections	22,525	-	22,525	25,250	(2,725)
Other city tax	18,644	-	18,644	15,153	3,491
License and permits	85	-	85	200	(115)
Use of money and property	1,100	-	1,100	5,950	(4,850)
Intergovernmental	21,974	-	21,974	21,000	974
Charges for service	10,371	25,660	36,031	42,250	(6,219)
Miscellaneous	<u>1,814</u>	<u>437</u>	<u>2,251</u>	<u>2,750</u>	<u>(499)</u>
Total receipts	<u>109,780</u>	<u>26,097</u>	<u>135,877</u>	<u>143,571</u>	<u>(7,694)</u>
Disbursements:					
Public safety	3,000	-	3,000	3,300	300
Public works	53,203	-	53,203	21,000	(32,203)
Culture and recreation	16,396	-	16,396	18,575	2,179
Community and economic development	-	-	-	1,500	1,500
General government	26,064	-	26,064	19,908	(6,156)
Debt service	16,478	-	16,478	16,478	-
Business type activities	<u>-</u>	<u>22,596</u>	<u>22,596</u>	<u>65,250</u>	<u>42,654</u>
Total disbursements	<u>115,141</u>	<u>22,596</u>	<u>137,737</u>	<u>146,011</u>	<u>8,274</u>
Excess (deficiency) of receipts over disbursements	(5,361)	3,501	(1,860)	(2,440)	580
Balances, beginning of year	<u>130,025</u>	<u>51,545</u>	<u>181,570</u>	<u>154,074</u>	<u>27,496</u>
Balances, end of year	<u>\$ 124,664</u>	<u>\$ 55,046</u>	<u>\$179,710</u>	<u>\$ 151,634</u>	<u>\$ 28,076</u>

See accompanying independent auditor's report.

CITY OF CLEGHORN
NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION - BUDGETARY REPORTING
JUNE 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities, and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year ended June 30, 2004 the budget was not amended.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public works and general government functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF CLEGHORN
STATEMENTS OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2004

Schedule 1

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning Of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End Of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
General obligation notes: Street improvement	May 7, 1996	5.30%-5.90%	<u>\$150,000</u>	<u>\$ 93,000</u>	<u>\$ -</u>	<u>\$ 11,250</u>	<u>\$ 81,750</u>	<u>\$ 5,228</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF CLEGHORN
BOND AND NOTE MATURITIES
YEAR ENDED JUNE 30, 2004

Schedule 2

General Obligation Notes
Street Improvement
Issued May 7, 1996

Year Ending <u>June 30,</u>	Interest <u>Rates</u>	<u>Amount</u>
2005	5.40%	\$ 11,750
2006	5.50	12,500
2007	5.60	13,250
2008	5.70	14,000
2009	5.80	14,750
2010	5.90	<u>15,500</u>
		<u>\$ 81,750</u>

See accompanying independent auditor's report.

CITY OF CLEGHORN
SCHEDULE OF RECEIPTS BY SOURCE AND
DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS

Schedule 3

2004

Receipts:

Property tax	\$ 33,267
Tax increment financing collections	22,525
Other city tax	18,644
License and permits	85
Use of money and property	1,100
Intergovernmental	21,974
Charges for service	10,371
Miscellaneous	<u>1,814</u>
Total	<u>\$ 109,780</u>

Disbursements:

Operating:

Public safety	\$ 3,000
Public works	53,203
Culture and recreation	16,396
General government	26,064
Debt service	<u>16,478</u>
Total	<u>\$ 115,141</u>

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.
JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council
Cleghorn, Iowa

We have audited the financial statements of City of Cleghorn, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated July 28, 2005. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of Cleghorn's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Cleghorn's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Cleghorn's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Cleghorn, and other parties to whom City of Cleghorn may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Cleghorn during the course of our audit.

Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Hungelmaier, Putzier & Co.

July 28, 2005

CITY OF CLEGHORN
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS

I-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliation are all handled by one individual.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will have the Treasurer review all checks written monthly to determine that the wages paid, the tax deposits, and all other checks are reasonable and proper.

Conclusion - While the above procedures do improve the segregation of duties there may still be occasions when an ideal segregation cannot be obtained because of the limited number of employees. The board should continue to be involved in reviewing documentation and reports.

I-B-04 Electronic Data Processing Systems - During our review of internal control, the existing control activities in the City's computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City's computer based systems were noted:

The City does not have written policies for:

- Ensuring that only software licensed to the City is installed on computers.
- Personal use of computer equipment and software.

Also, the City does not have a disaster recovery plan.

Recommendation - The City should develop written policies addressing the above items in order to improve the City's control over computer based systems and a written disaster recovery program should be written.

Response - We are currently reviewing what policy needs to be implemented in regards to our software, internet, and personal usage of computers.

Conclusion - Response accepted.

CITY OF CLEGHORN
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the Financial Statements: (Continued)

REPORTABLE CONDITIONS: (Continued)

I-C-04 Cancellation of Invoices - We noted that invoices were not marked paid to help prevent duplicate payment.

Recommendation - All invoices should be properly canceled to prevent reuse.

Response - We will cancel all future invoices.

Conclusion - Response accepted.

I-D-04 Reconciliation of Utility Billings, Collections, and Delinquencies - Utility billings, collections, and delinquent accounts were not reconciled throughout the year.

Recommendation - Procedures should be established to reconcile utility billings, collection, and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response - A new billing program will be installed in January, 2006 which will assist us in reconciling these accounts.

Conclusion - Response accepted.

I-E-04 Fire Department Funds - The Fire Department currently maintains separate bank accounts which are not included in the City's financial records. This is not a separate non-profit corporation, but is a department of the City. Chapter 384.20 of the Iowa Code states in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any officer, employee or other person, and which show the receipt, use, and disposition of all city property. Public moneys may not be expended or encumbered except under an annual or continuing appropriation." Also, the City is currently remitting \$750 per quarter to the Fire Department with no supporting documentation that the funds were expended for a proper public purpose.

Recommendation - These funds should be included in the City's financial records and any disbursements should be budgeted and properly supported by adequate documentation of public purpose.

Response - We are reviewing this situation. All future quarterly payments to the Fire Department will only be applied to actual invoices.

Conclusion - Response accepted.

CITY OF CLEGHORN
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Statutory Reporting:

- II-A-04 Official Depositories - A resolution naming official depositories and the maximum deposit amounts has not been adopted by the City as required by Chapter 12C.2 of the Code of Iowa.

Recommendation - The City should approve a resolution naming each depository and the maximum amount which may be kept on deposit.

Response - We will approve a resolution of depository.

Conclusion - Response accepted.

- II-B-04 Certified Budget - Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the public works and general government functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will monitor this more closely in the future.

Conclusion - Response accepted.

- II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-D-04 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-E-04 Business Transactions - There were no business transactions between the City and City officials or employees.

- II-F-04 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-G-04 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not. However, the City did not publish annual gross salaries as required by an Attorney General's opinion dated April 12, 1978. Also, the minutes were not published within 15 days of the meetings as required by the Code of Iowa.

Recommendation - The City should publish annual individual salaries as required, and the minutes should be published within 15 days of the meetings.

CITY OF CLEGHORN
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-G-04 Council Minutes - (Continued)

Response - We will begin publishing the gross salaries and will ensure that the minutes are published within 15 days of the meetings.

Conclusion - Response accepted.

II-H-04 Deposits and Investments - The City does not have an investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation - The City should adopt an investment policy which authorizes the types of investments the City may hold.

Response - We will adopt an investment policy.

Conclusion - Response accepted.

II-I-04 Excess Balances - The following funds have balances at June 30, 2004 in excess of one year's expenditures:

Special Revenue - Road Use
 - Local Option Sales Tax

Recommendation - While it appears that these funds may have an excessive balance, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response - We do plan to use these excess funds for future projects.

Conclusion - Response accepted.

II-J-04 Form 1099 - The Internal Revenue Service requires that Form 1099 be prepared when disbursements for services to a non-corporate entity exceed \$600 in a calendar year. The City is currently not issuing any 1099's.

Recommendation - The City should monitor yearly disbursements by vendor and issue a Form 1099 if required.

Response - We will issue Form 1099 when required.

Conclusion - Response accepted.

CITY OF CLEGHORN
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Statutory Reporting: (Continued)

- II-K-04 Required Funds - The City has not established a Tax Increment Financing (TIF) fund to account for TIF receipts and disbursements. Also, the City's long term debt payments were made from the General fund instead of the Debt Service fund.

Recommendation - The City should establish TIF and Debt Service funds and sufficient transfers should be made from the TIF to the Debt Service fund. Long term debt payments should then be made from the Debt Service fund.

Response - We will establish these funds and make the required transfers from the TIF fund to the Debt Service fund.

Conclusion - Response accepted.

- II-L-04 Water Equipment Expense - We noted a disbursement of \$12,045 for water control system expenses which was paid from the General fund. This disbursement should have been made from the Water fund or possibly the Local Option Sales Tax fund.

Recommendation - Funds should be transferred from the Water fund or Local Option Sales Tax fund to the General fund to reimburse this disbursement.

Response - We have transferred \$12,045 from the Local Option Sales Tax fund.

Conclusion - Response accepted.

- II-M-04 Annual Financial Report - It appears that the annual financial report required to be filed with the state auditor was not submitted as required for the year ended June 30, 2004.

Recommendation - The annual financial report should be prepared as soon as possible and submitted to the state auditor.

Response - The annual financial report has been prepared and filed.

Conclusion - Response accepted.